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Market Seeking Orientation and Performance in China: The Impact of Institutional Environment, Subsidiary Ownership Structure and Experience

Dr. Xinming He

Durham University Business School
Ushaw College
Durham, DH7 9RH
UK
xinming.he@durham.ac.uk

Dr. Jianhong Zhang (corresponding author)

Nyenrode Business University
Straatweg 25
3621 BG Breukelen
The Netherlands
Tel.: +31-346-29 1764
Fax: +31-346-29 1250
Email: j.zhang@nyenrode.nl

Dr. Jinmeng Wang

Nanjing Audit University
Zhonghe Building, 86 West Yushan Road, Pukou District, Nanjing.
Jiangsu Province
Post Code: 211815
China

Abstract: Many foreign firms tend to follow the market-seeking mandate in China. However this orientation alone does not guarantee superior performance. From the perspectives of strategic fit and institutional theory, this research seeks to reveal several conditions under which market-seeking MNEs can achieve superior performance in China. We identify three performance contributors to marketing seeking FDI: the host country's favorable formal institutions towards FDI, the subsidiaries' operational experience and absorptive capacity in the host country, and the ownership structure of the subsidiary. Using data of 5,080 foreign invested subsidiaries in 2003-2010, our findings support the hypotheses that market-seeking orientation becomes more profitable for foreign subsidiaries in China when (1) the host country provides a more favorable institutional framework towards FDI; (2) the subsidiary has a longer history of FDI operation in the host country that leads to stronger absorptive capacity; and (3) the subsidiary is organized in a wholly owned manner.

Key words: FDI motivation, performance, institutions, WOS, market seeking, experience, China

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1. Introduction

International firms expanding into foreign countries can focus on either the local market, seeking benefits from market growth by selling locally, or export markets, pursuing benefits from sales outside the host country (Brouthers et al. 2008; Luo 2002; Nachum and Zaheer 2005). In the literature, the former is termed as market seeking, versus the latter as resource seeking (Luo 2003; Luo and Park 2001; Nachum and Zaheer 2005; Wadhwa and Sudhakara 2011); market seeking orientation is used to describe a foreign firm's strategic intention to sell locally as the share of domestic sale in total sales of the firm (Pan and Chi 1999; Song 2002). Market seeking is often the primary strategy of foreign direct investment (FDI) in less developed economies to grab local market opportunity and growth (Luo 2001; Luo and Park 2001). China has become one of the biggest markets for both raw materials and manufactured products/services, such as crude oil, iron ore, steel and motor vehicles, etc. MNEs not only export to but also emphasize making FDI in fast-growing markets such as China with the aim of seizing local sales opportunities (Dunning 2000; 2009). Many companies that initially came for low labor costs now want to stay because China has become a huge market in its own right, and the production cost has dramatically increased (The Economist 2013). As early as 1996, approximately 80% of FDI in China was pursuing market seeking (Luo and Park 2001).

Past market seeking research sees different routes of inquiry. Some investigate the determinants to the local responsiveness of subsidiaries, including environmental factors, and firm network resources (Luo 2001). Chen, Griffith and Hu (2006) find that liability of foreignness increases the likelihood of adopting market-seeking strategies. Some use market

seeking MNEs as the general research context while exploring the performance drivers, such as environment uncertainty-offsetting competitive strategy (Luo and Park 2001), diversification and majority ownership (Zhao and Luo 2002), parent-subsidiary links (Luo 2003), and resource commitment (Luo 2003). Brouthers, Gao and McNicol (2008) suggest that market attractiveness can mitigate negative impact of corruption on market-seeking FDI. Some research reveals that market seeking firms use less joint ventures for new venture formation (Gil et al. 2006). Lastly, market seeking FDI will impact local economy by creating more jobs among linked partners (Hansen et al. 2009). Table 1 presents a summary of recent market seeking research.

(Insert Table 1 here)

Despite these research efforts, our knowledge of how market-seeking orientation enhances subsidiary performance remains limited (Pan and Chi 1999). The existing studies suffer from several limitations. First, they simply focus on firm resources/capabilities or competitive strategies (e.g., Luo 2003; Luo and Park 2001; Zhao and Luo 2002) without considering important influence by the host country's institutional forces, and the interaction between these forces and the firm's strategy and capabilities. Recent development in institutional theory suggests that the institutional forces drive international strategy and performance (Peng et al. 2008). Moreover, the institutions are evolving, and the impact on businesses is also changing. Ignoring the host country's dynamic institutions can risk an MNE's legitimacy, deepening its liability of foreignness, and dampening subsidiary performance (Xu et al. 2004).

Second, these studies do not fully consider the strategic fit of this strategy and other external and internal factors, assuming that market seeking is equally effective in different conditions (Gil et al. 2006). The strategic fit perspective asserts an important co-alignment between the strategy, the environment and organization structure, where the strategy is organized and

implemented with the aim of enhancing performance (Olson et al. 2005; Venkatraman 1989; Venkatraman and Camillus 1984; Xu et al. 2006b). For example, when fulfilling FDI, wholly owned subsidiaries (WOSs) and joint ventures (JVs) are different along a range of attributes (Brouthers et al. 2008); Making FDI, an MNE needs to understand that the use of a different subsidiary structure can make market seeking more or less effective (Venkatraman and Camillus 1984).

We overcome these limitations and address the focal question by using lenses of the strategic fit paradigm (Venkatraman 1989; Venkatraman and Camillus 1984) and the institutional theory (North 1990; Oliver 1991; Peng et al. 2008; Venkatraman and Prescott 1990).

Following Zajac et al.'s (2000) argument that strategic fit is affected by multiple environmental and organizational contingencies, we combine MNEs' market-seeking strategy with several critical factors, including the host country's institutional forces, subsidiary experience and operating ownership structure, all of which can influence the strategic fit in an attempt to explain FDI performance (Brouthers and Hennart 2007; Delios and Beamish 2001; Luo 2001; Peng et al. 2008). These specific environmental and organizational factors provide unique time- and organization-specific predictions regarding the strategic fit in FDI (Murray et al. 2009; Zajac et al. 2000).

This research makes three important contributions to the literature. First, with the combination of institutional thinking and strategic fit perspective, we depart from the existing FDI market seeking literature which merely emphasizes firm resources or competitive orientation (e.g., Luo 2003; Luo and Park 2001) by advocating a comprehensive and integrative approach that explores the way in which external forces (host country's FDI institutions) and organizational factors (FDI experience and operational ownership structure) interact with each other in influencing market-seeking firms' performance.

Second, our study addresses an important but not yet fully answered question of how FDI

performance can be improved by matching market seeking orientation with multiple factors. Drawing on the strategic fit perspective and the strategic response theme of institutional theory, we suggest that organizations can react to the institutional challenges by aligning operational structure and resources to them in order to develop a strategic fit. The match will have significant positive effects on market-seeking subsidiaries' performance. Despite this notion's appeal and centrality in strategic management, there is limited research targeting the extent to which fit for market-seeking MNEs can explain inter-firm performance differences in international operations. Our research is one of the few empirical attempts designed explicitly to examine the existence, nature, and performance outcomes of fit among market-seeking orientation, experience, and the institutional environment and subsidiary ownership in which it is implemented. By addressing the effect of strategy match on performance, we tackle an important issue: whether fit matters and, if so, the extent to which and when it matters. We explore these aspects within the context of MNCs' marketing seeking operations on the basis of its coalignment with institutional environment, subsidiary structure and international experience, and the performance consequences.

Third, this research extends the institutional change perspective (Cantwell et al. 2010; North 1990; Peng 2003) by considering the time effect of evolving institutions with the aid of a sizable longitudinal data set¹. We develop and test a hypothesis about the evolutionary relationship between institution change and market-seeking strategy-performance. This marks a novel and significant contribution to this stream of research.

2. Literature Review and Hypotheses

Market seeking orientation

Market seeking in emerging markets has become more and more attractive, with MNEs

¹ We thank a reviewer for helping us strengthen this point.

increasingly turning to these as key locations for future growth while developed world markets are becoming saturated (London and Hart 2004). The size and increasing wealth of an economy are key factors that make local markets attractive, because they create opportunities for new entrants, as well as higher returns, and allow for specialization, market segmentation, and the potential for scale of economies (Brouthers et al. 2008). During the last four decades, China has enjoyed huge economic development and become a major market for a wide range of industrial and consumer products. The country also has a vast potential untapped market opportunity. Downstream integration into distribution and marketing activities has become a widely practiced strategy for MNEs operating in China (Li 1994). These market seekers intend to sell products in the Chinese market to get their share of the constantly fast-growing consumer and industrial markets (Brouthers et al. 2008; Luo 2001; Luo and Park 2001). As a result, there has been a high percentage of domestic sales to MNEs' total sales volume (Pan and Chi 1999; Song 2002).

Market-seeking FDI is driven by the reduction of spatial transaction costs that reflect both the liberalization of cross-border markets and the changing characteristics of economic activity (Dunning 2009). These MNEs enjoy a higher level of downstream vertical integration in an attempt to avoid various transaction costs due to the under-developed market-supporting frameworks in developing countries on the one hand (Pan and Chi 1999), and to reap benefits from pent-up, indigenous demand that has long been stifled by government interventions in these markets on the other (Luo and Park 2001).

Compared with the other FDI strategies such as resource seeking (or export market seeking) (Luo 2001), market expansion requires a deeper understanding of local customers (Nachum and Zaheer 2005), competition, distribution systems, and the institutional framework that constrain how foreign firms and their domestic counterparts engage in satisfying local changing demands and needs. Market seeking subsidiaries monitor the market situation and

carefully apply product and market innovations developed by headquarters, and accordingly transfer mature products and technologies to the host (Luo and Park 2001). They often use market penetration and extend the strength of their traditional product- market bases. This strategy also requires a high level of local adaptation of MNE operations (Luo 2001; Pan and Chi 1999): the management team is often given more autonomy; the firm gives more emphasis to the local market, develops necessary business networks, and in the meantime capitalizes on its capabilities in R&D, technology, production and marketing. Market seeking allows MNEs to extend the life cycle of their primary products and to maximize returns on their technological skills when avoiding the market fluctuations outside the host country (Pan and Chi 1999).

Nevertheless, past research does not find that MNEs' sales in the host country necessarily impact profitability (Pan and Chi 1999), which can be explained with the thinking of equifinality, a central idea of contingency theory (Murray et al. 2009; Olson et al. 2005). The concept of equifinality posits that better performance depends less on a particular strategy, and can be realized through a range of different strategies (Venkatraman and Prescott 1990). It is the fit between strategy, environment and organizational structure that enhances performance (Murray et al. 2009; Olson et al. 2005). Therefore, for a better understanding of what make market-seeking FDI a success in an emerging economy such as China, we employ the strategic fit perspective (Venkatraman 1989; Venkatraman and Camillus 1984) and the institutional theory (North 1990; Oliver 1991; Peng et al. 2008; Venkatraman and Prescott 1990) as the overarching analytic tools.

Strategic fit: strategy, institutions, ownership structure, and experience

Strategic fit is a core concept in the normative model of strategy formulation, and one of the most widely shared and enduring assumptions in the strategy literature (Zajac et al. 2000).

The strategic fit paradigm (Venkatraman and Prescott 1990) posits that the fit (or congruence,

consistence, compatibility, or match) between two or more factors, such as organization environment, strategy, structure, systems, style, and culture, for example, results in organizational performance (Yin and Zajac 2004). Past research notes that different degrees of environmental variation require different levels of decision-making comprehensiveness and strategic formality to match organizational resources with opportunities and threats in the general business environment (Aragón-Correa and Sharma 2003). Firms achieve strategic fits with environments and other strategic factors by adopting an appropriate strategy, and superior performance is contingent on these strategic fits (Murray et al. 2009; Venkatraman and Prescott 1990; Zajac et al. 2000). This is also in line with the contingency theory, which argues that superior performance is achieved through the proper alignment of endogenous organizational design variables with exogenous context variables (Aragón-Correa and Sharma 2003). Prior research has shown how fit between governance structure and strategy (i.e., franchising governance and strategic complexity) (Yin and Zajac 2004), and between environment and strategy (Murray et al. 2009), increases performance. Despite the widespread recognition of the importance of strategic fit, research has yet to address the possibility of similar fit issues in international strategies such as market-seeking FDI. Building on the strategic fit paradigm, this research goes beyond the usual debates regarding the superiority of one strategy over another, and further suggests that performance implications of market seeking may be attributable more to the strategic fit than to the market seeking orientation itself. In light of this perspective, the strategy needs to be consistent with the institutional frameworks in which the firm and strategy are embedded for superior performance (Venkatraman and Prescott 1990). The strategy also needs to be congruent with the organizational structure to be organized and implemented for better performance (Lukas et al. 2001).

Institutions are the constraints and incentive systems of a society that structure human interactions (North 1990). Organisations have motivation to enhance their legitimacy and performance by becoming isomorphic with their institutional environment (Venkatraman and Prescott 1990). MNEs co-evolve with the institutional environment to survive and grow (Cantwell et al. 2010). Institutions comprise three fundamental pillars of regulative, normative and cognitive systems, which elicit related but distinguishable bases of legitimacy (Scott, 1995). The regulative pillar encompasses regulative institutions - rules and laws that exist to ensure the stability and order of a society (Xu et al. 2004). Institutional constraints imposed upon organisations from regulative institutions work mainly through coercive forces, directly influencing the behaviours of organisations (DiMaggio and Powell 1983), and firms' responses to these pressures based on self-interest (Peng 2003). According to Xu et al. (2004), the "strategic response" theme maintains that firms will respond to the institutional challenges by deploying resources and formulating strategies accordingly (He et al. 2013; Oliver 1991; Peng 2003). For example, while emerging markets remain highly uncertain and dynamic (Luo and Park 2001), MNEs competing in these markets can develop resources including absorptive capacity proxied by prior related experience and knowledge (Cohen and Levinthal 1990; Petersen et al. 2008; Zahra and George 2002). MNEs also adjust strategic choices to be congruent to the institutions during the time of fundamental and comprehensive institutional transitions (Peng 2003). Recently researchers have begun to explore the effect of institutional pressure on entry mode selection (Estrin et al. 2009), export channel selection (He et al. 2013), ownership choices (Yiu and Makino 2002) and expatriate strategies (Xu et al. 2004). In this study, we examine the impact of regulative institutions on MNEs' choice of FDI market orientation in China. In accordance with the institutional theory, we suggest that an MNE's FDI motivation, which is compatible to the host country's FDI policy, will provide better performance.

The strategic fit paradigm shows two types of fit that boost organizational performance: the fit between strategy and external environment, and the fit between strategy and organizational structure (e.g., Lukas et al. 2001; Yin and Zajac 2004). First, organizations that are able to align their strategies with their environments to achieve strategic fit are likely to achieve higher performance (Lukas et al. 2001; Venkatraman and Prescott 1990). This contention is consistent with that of the strategic response theme of institutional theory (Peng 2003).

MNEs' strategic fit with the institutional challenge in the host country is that they align the strategic resources deployment to the specific requirements of the institutional context, and such a fit helps to improve FDI performance (Venkatraman and Prescott 1990).

Second, firms that are able to align their strategy with internal factors, such as experience and organizational structure, are likely to show superior performance (Venkatraman and Camillus 1984). This insight is gained from Chandler's (1962) seminal work on the fit between strategy, structure, and the performance implications of this fit. Pursuing different strategies in FDI, such as in the case of market expansion vs. resource seeking, requires a different set of resources and level of control (Brouthers et al. 2008). The literature does not provide a definite answer on the performance implication of JVs or WOSs. Some argue that WOSs outperform JVs in both *ex ante* and *ex post* manners (Brouthers et al. 2003; Chang et al. 2013; Shaver 1998). Others reveal greater complexity. For instance, Xu et al. (2006a) find that, in China JVs outperformed WOSs in terms of ROA. This divergence in empirical work implies that FDI operational ownership may work with other internal and external factors (e.g., FDI mandate and experience) in influencing performance. WOSs are different from JVs in dimensions of control, operating flexibility, and rent-sharing structure, all of which are important for market expansion and for avoiding conflicts with local partners (Peng 2003).

China's emerging-market nature implies the imperative importance for MNEs to learn and understand the marketplaces (i.e., consumers, the distribution system, and local competitors,

etc.). Market-seeking MNEs with more local preference are firmly embedded in local supplier and customer networks (Dunning 1998). Local experience contributes to the development of new knowledge and absorptive capacity (Cohen and Levinthal 1990; Petersen et al. 2008; Zahra and George 2002), which influences a subsidiary's performance (Delios and Beamish 2001). Firms need time to learn and digest the changing institutional environment in order to respond effectively for compliance and legitimacy (Kostova and Zaheer 1999) and develop absorptive capacity (Petersen et al. 2008). Foreign entrants have to learn about the local environment and develop accordingly the know-how of market expansion from their own experience of interacting with local customers, suppliers and channel members (Tan and Meyer 2011). Moreover, experienced investors are more likely to evolve to establish and benefit from the fit between environment, strategy and structure (Venkatraman and Camillus 1984).

Market seeking orientation and institutions

A specific strategy does not readily lead to better performance, as past research has seen the impact of market seeking on FDI performance (Pan and Chi 1999). Superior performance will be contingent on how well the environment, structure and strategy are aligned (Olson et al. 2005).

MNEs seeking local market opportunities tend to confront a greater level of influence from environmental forces than those seeking export sales (Luo 2001). The institutional theory and the strategic response theme claim that firms can be actively aware of the institutional pressures, such as regulative forces, and consciously intend to conform (Yiu and Makino 2002). Sometimes they employ tactics to actively exert influence on the institutional constituents, based on the understanding that conformity will be self-serving to organizational interests (Oliver, 1993). The consistency of institutional change with organizational goals leads to organizations' willingness to acquiesce to external pressures (Oliver, 1993). Many

MNEs seek market expansion in fast growing emerging markets to exploit the market potentials. In some cases, they may not be able to market their products locally, instead, they use local resources to make and assemble products for exporting due to the host country's restriction on local sales.

The institution change perspective suggests that institutions are not static but evolving to exert impact (Cantwell et al. 2010; North 1990; Peng 2003). This implies a dynamic strategic fit between institutions and firm strategy. Extending this line of thinking, we hypothesize the evolutionary impact of institutions on market-seeking and FDI performance link. China as a transitional economy provides a perfect platform for this study. China used to have strict requirements in terms of export proportion, local contents, and the balance of foreign exchanges of FDI. On its way for a market economy, China has been dismissing government-instituted distribution, wholesale, and retail systems under the central planning regime (Luo 1998). Meeting WTO requirements, China implemented a new trade and foreign investment policy from 2001 onwards with the objective to remove exporting mandates for foreign subsidiaries². China further opened its domestic market to foreign investors by granting them trading and distribution rights in 2005³. The policy changes provide a friendlier institutional environment for market-seeking FDI, enabling MNEs to seek opportunities in the Chinese market by selling locally the products they manufacture. Many MNEs react rapidly by turning exports into local sales when these restrictions are lifted or relaxed. During China's course towards a market economy and a full membership of WTO, many MNEs also worked actively to persuade Chinese government to open up more its domestic market (Child and Tse 2001; Ramamurti 2001). Foreign firms that can be proactively adaptive to the

² See Detailed Implementing Rules for the Law of the People's Republic of China on Wholly Foreign-Owned Enterprises (revised in 2001).

³ Since then foreign investors are allowed to set up new and standalone Foreign Invested Commercial Enterprises or expand the business scope of an existing subsidiary to domestic distribution and sales with their own distribution channels. See Measures for the Administration on Foreign Investment in Commercial Fields announced in 2004 and effective from 2005.

institutional change by developing strategies in emerging markets can enjoy better performance due to the increased legitimacy and higher efficiency in complying to the new institutional development (Peng 2003). Thus we have:

Hypothesis 1: The relationship between market seeking orientation and performance will be contingent on the host country's formal institutions towards domestic sales; the relationship will be strengthened when the host country adopts favourable policy towards FDI's access to domestic market.

Experience

Experience reflects a firm's successes and failures over time. Experience in the host market serves as a critical factor that reduces the liability of foreignness and improves the understanding of the external environment and FDI operations (Luo 2001). It also relates to a firm's capability to generate, disseminate, and exploit new knowledge, namely absorptive capacity (Cohen and Levinthal 1990; Petersen et al. 2008; Zahra and George 2002). The Uppsala model asserts that firms gain experience in international operations as a key mechanism to reduce uncertainty and then move along the internationalization stages (Elango and Pattnaik 2007; Johanson and Vahlne 1977). Host country experience provides important information about the business environment that enables a foreign firm to make better assessment of future expansions, and extends its understanding of alternatives (Delios and Henisz 2003), and is a key determinant of resource contributions, investment scale, knowledge commitment, and business localization (Luo 2001).

The length of operation in the host reflects the level of experience that can impact the outcomes of the chosen strategy and the extent of success. Firms gain experience through environmental scanning, interaction with market forces, learning-by-doing, and internalizing past experience as organizational memory, which determines the development of its knowledge acquisition, assimilation, exploration capabilities (Zahra and George 2002). Firms

tend to rely on their business experience to run foreign operations, especially in such a dynamic market as China. Learning is more difficult in new fields (Petersen et al. 2008). It is of paramount importance for market-seeking MNEs to learn local markets, accumulate knowledge in marketing products locally, and gain access to local distribution system (Li 1994; Vanhonacker 1997). Market-seeking firms have to face new competition and customers, as well as many other difficulties (Cuervo-Cazurra et al. 2007). They will face a severe shortage of understanding of the local marketplace, and key actors in areas such as marketing, sales and services if they do not have a long history of operations for the purpose of better satisfying actual and potential customers' tastes and needs (Pan and Chi 1999). They will be disadvantaged *vis-à-vis* local rivals if not familiarizing themselves with the local language, business customs, legal requirements, and marketing procedures (Nachum and Zaheer 2005). Given China's unique business environment, foreign firms face more challenges to adapt to this local marketplace. They need time to develop and apply local capacity, such as relational networks, namely *guanxi*, which are a strategic resources in doing business in China (Luo 1997; Luo and Park 2001; Pan and Chi 1999; Peng 2003). London and Hart (2004) refer to this as an extra capability, social embeddedness, to allow MNEs to understand and leverage the strengths of the market environment. Strategically valuable as it is, *guanxi* networks take time to cultivate and develop, and the length of operation greatly increases the level of *guanxi* of a foreign firm (Luo & Park, 2001). In addition, although China is a unitary state with uniform laws across the country, the business environment varies across regions (Du et al. 2008). Firms need time to acquire the experience and adjust their practice which can well reflect the sub-local needs.

Based on these we have:

Hypothesis 2: The relationship between market seeking orientation and performance will be contingent on the firm's local experience, such that a market-seeking firm that is more experienced will have better performance.

Ownership structure

The strategic fit paradigm also advocates the fit between strategy and structure as a performance-enhancing mechanism (Venkatraman and Camillus 1984). The ownership structure is a critical component in terms of creating and heaping value from a strategy, with important performance implications for foreign subsidiaries (Brouthers and Hennart 2007).

To generate and garner value from market seeking, foreign firms with strong absorptive capacity through accumulated operational experience will act in a fit-enhancing manner.

Particularly, they will adopt ownership structure that are more congruent with their market-seeking orientations with a focus on the market dynamics and flexibility, curtailing conflicts with local partners, protecting valuable assets, and ensuring a full control.

FDI is usually organized into two structures: WOSs and JVs (Brouthers and Hennart 2007), a choice critical to FDI operation. Which one prevails depends not only on the need to maintain control, but also on its performance outcomes (Chang et al. 2013). We suggest a three-way interaction such that a wholly-owned structure may make market expansion better off, contingent on the MNE's experience in the host country.

JVs and WOSs work in different directions for benefits (Brouthers and Hennart 2007). JV is a way to pool and use valuable resources with local partners, especially when the resources cannot be obtained efficiently via market exchanges or mergers and acquisitions (Das and Teng 2000; Xu et al. 2006a), such as insightful information and country-specific knowledge (Luo 1997; 1998); It creates learning from partners (Ireland et al. 2002), and thus lower the risk of institutional conflicts between a foreign subsidiary and host-country institutions (Xu et al. 2006a).

However, close and long-term partnership is difficult to establish and maintain in JVs (Chang et al. 2013). Several reasons make the value of JVs difficult for market seekers to reap in

China, i.e. diversion of partners' orientation for cooperation (e.g., Chinese partners prefer quick profit from partnering while the MNE treats it as a platform for strategic entry and learning even at short-term loss) (Vanhonacker 1997); difficulty in coordinating a parent-JV product portfolio due to shared control, divergent learning and frustrated expectations created by task definitions, partners' routines, and expectations (Chang et al. 2013); and JV instability prompted by ownership and management control imbalance between parents (Steensma and Lyles 2000). Additionally, differences in institutional norms among partners may make information that is important to the focal firm ignored by a partner, simply because it falls outside accepted bounds (He et al. 2013; Xu et al. 2006a). Institutional distance can also create significant barriers that make the inter-partner communication of market information difficult or inaccurate (He et al. 2013; Kostova and Zaheer 1999). Furthermore, with the removal of many protectionist regulations, the value of local partnership is hugely reduced (Child and Tse 2001; Pan and Chi 1999). Thus to create more value and reduce costs the market seeking MNEs are less likely to use JVs for local market knowledge and entry.

In contrast, WOS not only helps market seekers reduce the frictions with local partners but also keeps the generated rent solely directed to the firm. From a transaction cost perspective, the wholly owned mode is ideal when the invested are intangible assets, and when potential partners may act opportunistically (Chang et al. 2013; Vanhonacker 1997), because it works as a way to protect these assets from expropriation (Chan et al. 2008). This is truly the case in China as MNEs tend to bring their advanced technology to China as evidenced by the fact that many Western and Japanese firms have set up R&D centers in China in sectors such as personal computers, telecommunications, chemical, automotive, pharmaceutical and biotechnology (Asakawa and Som 2008).

From the management control perspective, WOS offers market seekers full control from inception to demise by establishing their own control mechanisms, corporate culture and

management systems. As a result MNEs will be more likely to extend their proprietary assets to their WOSs and accordingly launch the latest products in the local market, which are often the most profitable products (Pan and Chi 1999). Besides, subsidiaries will have more decision-making power and flexibility as opposed to the requirement to obtain consent from local partners in JVs in order to respond to local markets more swiftly; this is critical when pursuing market expansion (Chang et al. 2013; Luo 2001). Sole ownership also protects subsidiaries from clashes in managerial styles and interests that often occur in JVs (Vanhonacker 1997). China is undergoing rapid change in consumers' appetites and competition, which requires quick decision making and implementation. Essentially, therefore, the wholly owned option can be attractive to MNEs that seek to explore market opportunities here.

Emerging markets are characterized by "institutional voids" caused by underdeveloped factor markets including capital, product and labor (Chan et al. 2008), the lack of reliable market information and efficient intermediary institutions, and excessive government intervention (Makino et al. 2004). Many resources that firms need for growth and development are strictly controlled by the state and are not always available for market exchange. For example, the stock market and bond market where the financial resources are channeled are restricted from foreign investors. In order to gain access to these valuable resources, foreign investors will need local resourceful partners. Nevertheless, in China, the post-WTO era is attributed by a much opener policy towards FDI on local sales. The market structure has become much more transparent for most commodities, and MNEs have access to the market equally with their indigenous rivals (Ralston et al. 2006). In addition, many Chinese partners are incapable of providing market access and finding markets (Vanhonacker 1997). Thus, local partners in market seeking are therefore less important than seeking other valuable resources (Nachum and Zaheer 2005).

Based on these, we have:

Hypothesis 3: The relationship between market seeking orientation and performance will be contingent on the subsidiary's ownership structure, such that a market-seeking firm that uses wholly owned structure will have better performance.

MNEs need FDI experience to improve their capability in managing WOSs (Chan et al. 2008) and their market entry and penetration. The institutions and the market in China have experienced substantial and fast change for long periods (Peng 2003). Less experienced entrants with wholly owned investments confront a high level of outsidership in the local market (Tan and Meyer 2011). MNEs operating in this market need a significant amount of knowledge and skills to enable them to play solo and be better aligned with the changing institutional framework, distribution channel relationships, customer demands and consumer appetite (Child and Tse 2001). Many drawbacks of wholly owned structure, such as the liability of foreignness, a high degree of uncertainty, lacking capabilities of doing business locally, can be addressed when a subsidiary becomes experienced in the host country (Gao and Pan 2010). More management control and internalized rent in a wholly owned market-seeking subsidiary should contribute to performance when more experience has been accumulated. Thus, we have:

Hypothesis 4: The relationship between a wholly-owned subsidiary's market seeking orientation and performance will be contingent on its experience, such that it will have better performance when it becomes more locally experienced.

3. Methods

Data

Our empirical context of market-seeking strategy followers in China covering a period of 2003-2010 provides an ideal laboratory to answer our research questions. One of the largest FDI recipients, China, along with many emerging-market counterparts, works as a

manufacturing platform for worldwide marketplaces, providing low-cost raw and produced materials and working forces to MNEs. These nations are also important markets characterized with rapidly and continuously expanding appetite for both consumer and industrial products/services where MNEs busily satisfy through market-seeking FDI (Dunning 2000; 2009). China has also been undergoing significant institutional transition from a centrally controlled economy to market economy. After 2001, it significantly relaxed the restriction on foreign investors' domestic sales as part of the requirements for the WTO membership to adopt much freer orientation towards FDI (Chang et al. 2013).

We use both industry-level and firm-level data. Our industry-level data were gathered from the Emerging Markets Information Service (EMIS) database of CEIC Data Company Ltd, and the subsequent volumes of China Statistical Yearbook. Firm-level data were obtained from a database of the local authority of Jiangsu Province. The data are from annual survey of greenfield FDI conducted by the local government. It provided the management information of all enterprises registered in this province. The samples were selected based on four criterions: 1) they are foreign invested firms which are active in generating revenues; 2) they remained active in 2010; 3) they were established before 2007; and 4) they are in manufacture industries. Notably, after dropping samples with incomplete information, we were left with 5,080 firms. The longitudinal data of these firms during 2003-2010 were used in our estimation⁴. Jiangsu was selected as our data source for three reasons. First, a recipient of approximately a quarter of the total FDI into China, Jiangsu is the most important destination for FDI nationwide (MOC 2011). Second, the FDI information of this province has been well documented by the local authority, thus ensuring quality of the data. Third, by focusing on a single province we are able to effectively control for regional effect, given the

⁴ In addition to the firms that were established before 2003, firms that were registered during 2003-2007 are also included in the sample. Therefor the estimations use unbalanced panel data.

size of China and the heterogeneity of provinces (Pedroni and Yao 2006).

Dependent Variable

We use return on assets (ROA), the most common measure of profitability, to measure firm performance (Hitt et al. 1997), which is the ratio of after-tax profit to total asset.

Key independent variables

We include a set of independent variables in line with our hypotheses. First, market-seeking orientation (*Market*) of a specific firm in a specific year is measured by the share of domestic sale in total sales of the firm (Estrin et al. 2009; Pan and Chi 1999; Song 2002).

WOS (wholly owned subsidiaries) refers to those foreign firms whose registered capital is 100% contributed by foreign investor(s); JV (joint ventures) refers to foreign firms whose 25-99% of the registered capital is contributed by foreign investor(s). In line with Chinese FDI law and conventional statistics, we define foreign investors as those who are from outside of mainland China, Hong Kong, Macau and Taiwan. The literature has noted that there are significant differences between investors from western countries and those from Hong Kong, Macau and Taiwan (HMT) in terms of behaviors, strategy and performance (Anwar and Sun 2012; Wang et al. 2009; Zhang 2005). HMT are ethnically Chinese economies, the investment from which is not viewed as “truly foreign” in nature (Du et al. 2008). In addition, a large proportion of the investment from HMT is the Round-Tripping investment originated from mainland China for tax and other reasons, which is not true foreign investment (Xiao 2004). Therefore, we single out HTM investment as a separate type of ownership in contrast to WOS and JV, and keep our focus on the ownership structure of non-HTM investment. *WOS* is devised as a dummy variable with the value of 1 if the firm is a wholly-owned subsidiary, and 0 otherwise; *JV* is a dummy variable with the value of 1 if the firm is a JV, and 0 otherwise.

Subsidiary experience (*Age*) is measured by the number of years since the subsidiary's

establishment⁵ (Delios and Beamish 2001). We developed a variable *Policy* to capture the host's institutions towards market seeking. The year of 2005 is chosen as the cutoff as the national policy towards FDI that lifted restrictions to foreign firms' conducting domestic sales and distribution became effective from 2005. *Policy* is gauged by a dummy variable (1 if the time was 2005 or onwards, and 0 otherwise).

Control variables

Firm-level control variable

We included several factors that may impact MNEs' performance. Firm size (*Size*) is measured by the value of total assets (RMB in billion) (Dhawan 2001).

Corporation tax (*Taxation*) is captured by tax rate of a firm applies. In order to attract FDI into China, various tax incentives were available to foreign invested firms since the 1980s, which included tax holiday and tax reductions for these firms in special areas or sectors. Tax holiday were also provided for start-up business. From 2008, the new Enterprise Income Tax Law of China became effective, under which the reduced tax rates for foreign invested firms would gradually increase to the standardized rate (25%) within five years after the new law's implementation. The tax rate would raise the cost and negatively impact profitability (Grubert and Mutti 1991).

The salary cost of a firm (*Salary*) is gauged by ratio of salary cost to value of management cost. Firms may tend to take cost-leadership strategy using China's abundant labor reserve, while a high salary cost may reduce profitability (Li 2003).

Fixed assets, measured by the ratio of fixed assets to total assets value, represents fixed assets ratio as a proxy of capital intensity of a firm. A capital-intensive firm has to carry a relatively large asset base, which makes the adjustment cost very high. Prior research shows a negative

⁵ We only take the firms that are active with selling into account. The firms that were established in China but are not active or selling are not included in our dataset.

relationship between capital intensity and profitability (Ramasamy et al. 2005).

The public relation cost (*PR cost*) is operationalized as the ratio of public relation cost to total management cost. Developing and maintaining close relationships, or *guanxi*, is costly and results in high PR cost for doing business in China (e.g., Lee 2010).

Industrial level control variables

We also include following industrial variables to control for industrial attributes that may induce performance variance (Luo 1998; Meyer 1998).

Capital intensity of an industry (*Capital intensity*) is measured by the value of total fixed asset (RMB in ten thousand) divided by the number of employees (Blomstrom and Persson 1983). FDI ratio of an industry (*FDI ratio*) is measured by the ratio of value of foreign capital to total capital of the industry. The growth rate of an industry (*Growth rate*) is measured by the ratio of one year's revenue to previous year's revenue. Technology intensity of an industry (*Tech intensity*) is measured by the ratio of R&D expenditure to total revenue. *Crisis* represents the period of financial crisis, devised as a dummy variable with the value of 1 if it is in the year 2008 and onwards, and 0 otherwise.

In addition, we include two dummy variables to control for the effect of home countries:

HTM (1 if the investor is from Hong Kong, Taiwan and Macau, and 0 otherwise), and *EUUS* (1 if an investor is from the EU or the US, and 0 otherwise).

Estimations

Endogeneity is well recognized as an important issue in strategic management research (Brouthers et al. 2003; Chang et al. 2013; Hamilton and Nickerson 2003; Shaver 1998). A firm's choice of strategy is nonrandom, or self-selected, so as that strategic choice may be dependent partially on other organizational and/or industrial attributes that are difficult to measure and cannot be included in the model; ignoring endogeneity can lead to biased parameter estimations (Hult et al. 2008).

Market seeking can be an endogenous decision attributed to industrial and firm characteristics (Hult et al. 2008; Shaver 1998). In order to control for the potential endogeneity problem, a two-step approach was adopted (Brouthers et al. 2003; Hult et al. 2008; Shaver 1998). In the first step, an unobserved self-selection correction variable, or inverse Millers ratio, was calculated from the estimated parameters of market-seeking equation using Probit regression with independent variables including local market sales percentage, sales growth in local market, FDI experience, firm size, percentage of FDI in trade and distribution functions, export ratio, and FDI origins (EU, USA, and HMT), etc. In the second step, the parameters of the performance equation were estimated by adding the correction variable. The random effect model is used in the both steps.

In an effort to assess the effect and significance of moderating variable, the estimated coefficient of the interaction terms is not sufficient to judge the moderating effect. The coefficient' variance and covariance of the corresponding variable and interaction terms, as well as the value of moderating variable should all be taken into account (Zhang et al. 2011). The approach used was introduced by Fredrich (1982) and Brambor et al. (2006) to assess the effect and significance of moderating variable. Two-way and three-way interactions are estimated in order to test the hypotheses.

4. Results

First we calculated the correlations between all independent variables. All VIF values are far below 5, suggesting that multicollinearity is not an issue in all models below⁶.

(Insert Table 2 here)

To calculate the unobserved self-selection correction variable and to test our hypotheses, we

⁶ All the independent variables are included in the calculation, which apply to Models 3-10. The sample size of Models 3-10 is 26,775 due to missing data of variable *Market*. We also calculated correlations with full sample (37,340) but without this variable, which apply to Model 1-2. No evidence for multicollinearity was found. These results are available upon request.

applied random effect estimation by using panel data of 5,080 firms during 2003-2010. In Table 3 which presents the estimates of performance equation, Model 1 and 2 use the full sample of 37,304 observations. Model 1 includes a constant and control variables; Model 2 further includes three moderating variables (WOS, Age and Policy). Based on Model 1 and 2, we added *Market* into Models 3, and *Market* and the self-correction term into Model 4. In Model 5-8, we added four two-way interaction items (Market _WOS, Market _JV, Market _Age, Market _Policy) respectively. In Model 9-10, two three-way interaction items (Market_Age _WOS, Market_Age _JV) and relevant two-way interaction items were added separately. Based on the estimates of Model 5-10, we calculate the moderating effects and their significance.

(Insert Table 3 here)

We see significant increase in explanatory power as we include more explaining variables. The model s1-4 without interaction terms can be used to explain the direct effects of explanatory variables. Models 5-10, which include interaction terms, are used to calculate the moderating effect. The results of moderating effect are shown in figure 1-6.

Model 3-4 all indicate that *Market* has significantly positive impact on ROA; *AGE* is positively and significantly related to ROA. *Policy* is positively associated to ROA but only significant in Model 2.

The results of the moderating effects are presented in Figure 1-6. The two-way interaction effects in Figure 1 and 2 indicate that (1) *Policy* has significantly positive effect on the *Market*-performance link, supporting H1, and (2) *Age* has positive moderating effect on the *Market*-performance link: especially when *Age* is over six years, the moderate effect becomes significant, providing support to H2.

The two-way interaction effects in Figure 3 and 4 indicate that both *WOS* and *JV* have insignificant effects on *Market*-performance link, inconsistent with H3. This result implies

that joint ownership or whole ownership along may not be sufficient for successful market expansion; there may be other contingencies that necessitate the market-seeking operations. The three-way interaction effect in Figure 5 shows that Market*Age *WOS is significantly and positively linked to performance. This indicates that a fit among market seeking (*Market*), subsidiary experience (*Age*) and WOS structure increases performance, in support to H4. We also observe that the three-way interaction with *JV*, Market*Age*JV, is not significant (Figure 6), showing that joint structure does not fit with the market-seeking orientation (*Market*) and experience as WOS does.

(Insert Figures 1-6 here)

5. Discussions

The key motivation of the study reported here was to explore the way in which market seeking MNEs can improve FDI performance in the context of China, based on the thinking of the strategic fit and institutional theory. Our analysis results show that (1) the host country's institutional forces towards FDI significantly influence a market-seeking investor's profitability; (2) FDI operational experience in the host country is a crucial factor for a market-seeking investor to have superior performance, as this helps it gain understanding of the dynamics in institutions, the marketplace and the distribution system, and thus achieve greater absorptive capacity and then better performance; and (3) more experienced investors enjoy even better performance when the investment is structured in a wholly owned manner. Our findings offer three substantive contributions. First, this research extends to consider the important role played by institutional forces in the host country, which past market seeking studies have not fully addressed. International firms' strategy and performance are driven by these forces to a great extent (Peng et al., 2008). Enriching the institution-based view, our findings indicate that the outcome of MNEs' market seeking orientation and strategy are

subject to the influence of host countries' institutions; the alignment of the strategy and environment positively impacts performance.

Second, this research reveals several conditions under which market-seeking investors can achieve better performance, an important but overlooked topic in the international business literature (Pan and Chi 1999). Using lenses of the strategic fit paradigm (Venkatraman 1989; Venkatraman and Camillus 1984) and the institutional thinking (North 1990; Oliver 1991; Peng et al. 2008; Venkatraman and Prescott 1990), we extend the line of research by revealing that to achieve higher profitability, foreign firms pursuing market expansion in China should systematically consider the institutional framework towards FDI, their experience and knowledge of China's institutional environment and market place, and the compatibility of FDI operation ownership with market seeking. Our results from longitudinal data analysis support this combination and specify the importance of matching FDI strategic orientation, operational structure and institutional constraints to enhance FDI performance. We also add to the market entry literature by suggesting a clear condition under which FDI ownership structure moderates the strategy-performance link. FDI ownership research has been unclear in regard to the performance implications of WOSs and JVs (Brouthers et al. 2003; Xu et al. 2006a). Our study specifies that a wholly owned structure matches market seeking better with its capacity of preventing the operations from conflicts with local partners (Chang et al. 2013), protecting valuable assets (Chan et al. 2008), and fully controlling the business (Pan and Chi 1999), only when the subsidiary is more experienced. Our study therefore extends the knowledge on the way in which FDI performance can be improved by matching the governance mode with FDI orientation.

Third, this research also adds to the institution change perspective (North 1990; Peng 2003) by investigating the dynamic impact of institutions on the association of market-seeking orientation and FDI performance, with the aid of a novel and sizeable longitudinal data set.

The institutions are not static exerting changing impact on businesses, people and governments, and the way how these interact. International organizations' strategies and performance will be accordingly driven by evolving institutions (Peng et al. 2008). Our study provides support to this perspective; the host country's formal institutions, especially FDI policy, dynamically affect market seekers' FDI outcome.

Our study provides important guidelines and practical implications for business managers. First, as China has been establishing more favorable institutions encouraging FDI in general and opening up its markets in multiple sectors, MNEs have found market seeking an attractive strategy not only for larger sales volumes but also profitability. MNEs have easier access not only to manufacturing facilities, but also to the fast-developing Chinese market, which can provide a source for further growth. Market expansion becomes even more attractive when the labor cost has been increasing and the economic model has been changing from a dependence on export-led growth to consumption-led growth in recent years in China. Consequently, export orientation becomes less attractive.

Second, China remains a transitional economy, which is characterized by a high level of market dynamics, developing market-support systems as well as institutional voids. In order to make market seeking successful, MNEs have to be patient in terms of cumulating knowledge of Chinese institutions, marketplace, and distribution system, etc. As this study reveals, it may need at least six-year operational experience in China before it can garner value from market seeking.

Third, an experienced MNE can benefit even more when it structures the FDI under wholly ownership to protect intellectual rights, guarantee complete control over FDI operations, and prompt reaction to market. The drawbacks of WOS can be offset by accumulating experience and developed knowledge of local institutions, dynamics of market, and establishing connections with key actors, such as government officials and business partners (Peng 2003).

Our study has several limitations that offer significant opportunities for future research. First, we did not consider the use of a combination of WOS and JV, and the possible transformation of JV into WOS as highlighted by researchers (Chang et al. 2013; Vanhonacker 1997). The decision between a WOS and a JV is not necessarily an “either/or” choice. A local partner may have a powerful distribution network or may operate in a protected section, which is attractive to MNEs (Vanhonacker 1997). In such cases, a foreign firm can be involved in production by a WOS, and marketing and sales with a JV. Another strategy is the conversion of JVs into WOSs when the value-adding of local partners is significant but confined to the early life cycle of the JV (Chang et al. 2013; Vanhonacker 1997). Future research can investigate the interaction between these more complex configurations and FDI motivation.

Second, the nature of secondary data has constrained us from more explicitly using absorptive capacity as a tool to explore this capability’s impact on marketing seeking firms’ performance. Absorptive capacity, consisting of four complementary acquisition, assimilation, transformation and exploitation capabilities, leads to competitive advantage (Zahra and George 2002). Foreign subsidiaries need this capacity to achieve business success in the host country (Petersen et al. 2008). In addition, only the number of years since the subsidiary’s establishment was taken as a measure of FDI experience, which may overlook the subtle difference between different types of experience, namely contractual arrangement experience, equity joint venture experience, and wholly owned subsidiary experience, for example (Gao and Pan 2010).

Third, this study operationalized FDI performance as profitability, an important aspect of performance. Performance is a key dependent variable of business research, the assessment of which remains a difficult issue. Scholars have called for the use of a measurement that can reflect its multidimensional and multilevel nature (Hult et al. 2008). In the international business field, researchers use different types of performance measurement, including

financial, operational and overall effectiveness (Hult et al. 2008). Therefore future research may extend this study to investigate the hypothesized relationships on other performance measures in order to establish a complete understanding of these impacts on FDI performance.

Finally, our sample only included manufacturing investment established via greenfield mode. Thus further research could employ databases with richer information to compare the effects of investment in service versus in manufacturing sectors, the influence of manufacturing units versus service units, and the impact of greenfield mode versus acquisition mode⁷.

⁷ We thank a reviewer for this interesting point.

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Table 1 Summary of empirical market-seeking research

Authors	Theory	Samples	Methods	Results	Antecedents to FDI performance
Luo (2001)	The global integration-local responsiveness paradigm	168 MNE subsidiaries in China	Cross-sectional survey	Market-seeking subsidiary's local responsiveness is linked to environmental complexity (+), business practice specificity (+), cultural distance from the host country (-), competition intensity (+), market demand heterogeneity (+), government instituted component localization (+), local market orientation (+), export market orientation (-), previous experience, having established ties with managers at other businesses and with government officials,	
Luo and Park (2001)*	Strategic fit	113 foreign ventures in China	Cross-sectional survey		Analyzer orientation (+)
Zhao and Luo (2002)	RBV, TCA	319 foreign subsidiaries (manufacturing) in China	Cross-sectional survey		Related diversification strategy (+), majority ownership (+), both of which interact to boost performance.
Luo (2003)*	resource dependence and dynamic capability	196 MNE subsidiaries in China	Cross-sectional survey		Parent firm's control flexibility (+), resource commitment (+), and local responsiveness (+), moderated by

					regulatory interference (-), by industrial opportunity (+).
Chen, Griffith & Hu (2006)	Liability of foreignness	3,085 Sino-foreign manufacturing ventures	Archived database (Almanac of China's Foreign Economic Relations and Trade, 1979-1992)	MNEs from higher LOF countries are more likely to employ market-seeking strategies	
Gil et al. (2006)		247 Dutch, Greek, German, and US firms	Cross-sectional survey	Market-seeking firms use less joint ventures for new venture formation	
Brouthers, Gao & McNicol (2008)		54 countries (country as analysis unit)	Foreign Direct Investment Database (UNCTAD, 2004).	Market attractiveness mitigates negative impact of corruption on market-seeking FDI.	
Hansen, Pedersen & Petersen (2009)		95 Danish FDIs	Cross-sectional survey	FDI of market-seeking MNCs create more jobs among local linkage partners, but imply less job upgrading.	

* Market-seeking orientation and FDI performance research.

Table 2 Descriptive statistics and correlations

	Mean	Std. Err.	Market	WOS	JV	AGE	Policy	Size	Taxation	Salary	Fixed assets	PR cost	Capital intensity	FDI ratio	Growth rate	Tech intensity	Crisis	HTM	EUUS
Market	0.4857	0.0023	1																
WOS	0.4601	0.0030	-0.1071	1															
JV	0.1766	0.3813	0.0259	-0.4275	1														
AGE	6.9286	0.0238	0.0631	-0.0729	0.0558	1													
Policy	0.5883	0.0030	0.0652	0.0312	0.0008	0.3964	1												
Size	0.1409	0.0048	-0.0018	0.0350	0.0066	0.0515	0.0515	1											
Taxation	0.1334	0.0007	0.0040	-0.0647	0.0258	0.0362	-0.0370	-0.0284	1										
Salary	0.1590	0.0048	-0.0119	0.0142	-0.0101	-0.0137	-0.0087	-0.0194	0.0170	1									
Fixed assets	0.2897	0.0027	-0.0158	0.0641	-0.0316	-0.0033	-0.0005	0.0097	0.0096	0.0046	1								
PR cost	0.0589	0.0017	0.0153	-0.0348	0.0304	0.0121	-0.0015	-0.0091	-0.0024	-0.0080	-0.0231	1							
Capital intensity	9.6313	0.0370	0.1826	0.0118	-0.0384	0.1174	0.2315	0.1225	-0.0213	-0.0325	-0.0010	0.0416	1						
FDI ratio	0.4193	0.0009	-0.2238	0.1342	-0.0954	-0.0614	0.0641	0.0152	-0.0348	0.0002	-0.0038	-0.0393	-0.3090	1					
Growth rate	0.2610	0.0005	0.0179	-0.0228	-0.0153	-0.1937	-0.3491	-0.0281	0.0675	0.0029	-0.0257	0.0039	0.0080	-0.2687	1				
Tech intensity	0.0086	0.0000	0.0375	0.1100	-0.0805	-0.0351	0.0807	0.0520	-0.0154	0.0015	-0.0218	-0.0268	0.2475	0.0308	0.1375	1			
Crisis	0.2732	0.0027	0.1475	0.0604	-0.0013	0.3767	0.5129	0.0560	-0.1154	-0.0045	0.0010	-0.0177	0.2854	-0.0236	-0.4286	0.0648	1		
HTM	0.3633	0.0029	0.0905	-0.6973	-0.3498	0.0314	-0.0330	-0.0415	0.0466	-0.0067	-0.0414	0.0120	0.0182	-0.0634	0.0357	-0.0501	-0.0616	1	
EUUS	0.1709	0.0023	0.0265	0.1562	0.2284	-0.0148	0.0044	-0.0019	-0.0007	-0.0034	-0.0167	0.0001	0.0132	-0.0751	0.0341	0.0565	0.0049	-0.3429	1

Note: n = 26,775

Table 3 Random effect estimates of the performance equation

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Market			0.00610** (0.0029)	0.00606** (0.0029)	0.00751** (0.0038)	0.00557* (0.0032)	-0.0009 (0.0052)	0.0053 (0.0038)	0.0091 (0.0072)	0.0017 (0.0058)
WOS		-0.0101*** (0.0038)	-0.0132*** (0.0042)	-0.0133*** (0.0042)	-0.0117** (0.0050)		-0.0133*** (0.0042)	-0.0133*** (0.0042)	-0.0247*** (0.0074)	
JV						0.0119** (0.0056)				0.0423*** (0.0093)
AGE		0.000731** (0.0003)	0.000796** (0.0004)	0.000871** (0.0004)	0.000883** (0.0004)	0.000875** (0.0004)	0.0004 (0.0005)	0.000874** (0.0004)	-0.0005 (0.0006)	0.00128** (0.0005)
Policy		0.00307* (0.0019)	0.0032 (0.0020)	0.0024 (0.0023)	0.0024 (0.0023)	0.0024 (0.0023)	0.0025 (0.0023)	0.0018 (0.0030)	0.0022 (0.0023)	0.0023 (0.0023)
Size	0.00246** (0.0011)	0.00237** (0.0011)	0.0015 (0.0011)	0.0015 (0.0011)	0.0015 (0.0011)	0.0015 (0.0011)	0.0015 (0.0011)	0.0015 (0.0011)	0.0014 (0.0011)	0.0015 (0.0011)
Taxation	-0.110*** (0.0063)	-0.111*** (0.0063)	-0.168*** (0.0076)	-0.168*** (0.0076)	-0.168*** (0.0076)	-0.168*** (0.0076)	-0.168*** (0.0076)	-0.168*** (0.0076)	-0.167*** (0.0076)	-0.167*** (0.0076)
Salary	-0.005*** (0.0007)	-0.005*** (0.0007)	-0.0109*** (0.0011)	-0.0109*** (0.0011)	-0.0109*** (0.0011)	-0.0109*** (0.0011)	-0.0109*** (0.0011)	-0.0109*** (0.0011)	-0.0109*** (0.0011)	-0.0109*** (0.0011)
Fixed assets	-0.0124*** (0.0018)	-0.0122*** (0.0018)	-0.00900*** (0.0018)	-0.00901*** (0.0018)	-0.00902*** (0.0018)	-0.00902*** (0.0018)	-0.00896*** (0.0018)	-0.00900*** (0.0018)	-0.00897*** (0.0018)	-0.00896*** (0.0018)
PR cost	0.00621** (0.0025)	0.00600** (0.0025)	0.00550* (0.0029)	0.00551* (0.0029)	0.00550* (0.0029)	0.00550* (0.0029)	0.00555* (0.0029)	0.00552* (0.0029)	0.00539* (0.0029)	0.00548* (0.0029)
Capital intensity	0.00159*** (0.0002)	0.00148*** (0.0002)	0.00150*** (0.0002)	0.00147*** (0.0002)	0.00147*** (0.0002)	0.00147*** (0.0002)	0.00143*** (0.0002)	0.00146*** (0.0002)	0.00145*** (0.0002)	0.00145*** (0.0002)
FDI ratio	0.0312*** (0.0093)	0.0301*** (0.0096)	0.0338*** (0.0105)	0.0416*** (0.0157)	0.0415*** (0.0157)	0.0415*** (0.0157)	0.0414*** (0.0157)	0.0415*** (0.0157)	0.0446*** (0.0157)	0.0437*** (0.0158)
Growth rate	0.0165* (0.0085)	0.0200** (0.0086)	0.0252** (0.0105)	0.0240** (0.0107)	0.0240** (0.0107)	0.0240** (0.0107)	0.0236** (0.0107)	0.0239** (0.0107)	0.0260** (0.0107)	0.0258** (0.0107)
Tech intensity	2.089*** (0.2500)	2.081*** (0.2520)	2.295*** (0.2930)	2.292*** (0.2930)	2.290*** (0.2930)	2.290*** (0.2930)	2.284*** (0.2930)	2.295*** (0.2930)	2.230*** (0.2930)	2.250*** (0.2940)
Crisis	-0.0282*** (0.0016)	-0.0318*** (0.0019)	-0.0271*** (0.0023)	-0.0280*** (0.0027)	-0.0281*** (0.0027)	-0.0280*** (0.0027)	-0.0282*** (0.0027)	-0.0281*** (0.0027)	-0.0298*** (0.0028)	-0.0288*** (0.0027)
HTM	-0.0034 (0.0030)	-0.0112*** (0.0041)	-0.0106** (0.0045)	-0.0122** (0.0051)	-0.0122** (0.0051)	0.0011 (0.0042)	-0.0123** (0.0051)	-0.0122** (0.0051)	-0.0130** (0.0051)	0.0004 (0.0042)
EUUS	0.0161*** (0.0038)	0.0146*** (0.0039)	0.0165*** (0.0042)	0.0158*** (0.0044)	0.0158*** (0.0044)	0.0157*** (0.0044)	0.0156*** (0.0044)	0.0157*** (0.0044)	0.0154*** (0.0044)	0.0152*** (0.0044)
lambda				-0.0382 (0.0576)	-0.0391 (0.0576)	-0.0383 (0.0576)	-0.0386 (0.0576)	-0.0383 (0.0576)	-0.0432 (0.0576)	-0.0438 (0.0576)
Market_WOS					-0.0033 (0.0056)				-0.0257** (0.0105)	
Market_JV						0.0027 (0.0072)				-0.0143 (0.0138)

Market _AGE							0.0010		0.0000	0.0005
							(0.0007)		(0.0009)	(0.0007)
Market_Policy								0.0013		
								(0.0042)		
AGE_WOS									0.00203**	
									(0.0008)	
AGE_JV										-0.00439***
										(0.0011)
Market AGE _WOS									0.00298**	
									(0.00)	
Market AGE _JV										0.0026
										(0.0017)
Constant	0.0077	0.0103	0.0121	0.0299	0.0297	0.0170	0.0340	0.0305	0.0403	0.0167
	(0.0061)	(0.0067)	(0.0078)	(0.0280)	(0.0280)	(0.0278)	(0.0281)	(0.0280)	(0.0282)	(0.0279)
Observations	37304	37304	26775	26775	26775	26775	26775	26775	26775	26775
Number of firms	5080	5080.	4880	4880	4880	4880	4880	4880	4880	4880
chi-square test	882.60	904.40	898.30	898.70	899.00	898.80	901.20	898.90	946.90	923.70

Note: a) Standard errors are shown in parentheses;

b) *** p<0.01; ** p<0.05; * p<0.1

Figure 1 Moderating effect of Policy on the performance of market seeking orientation

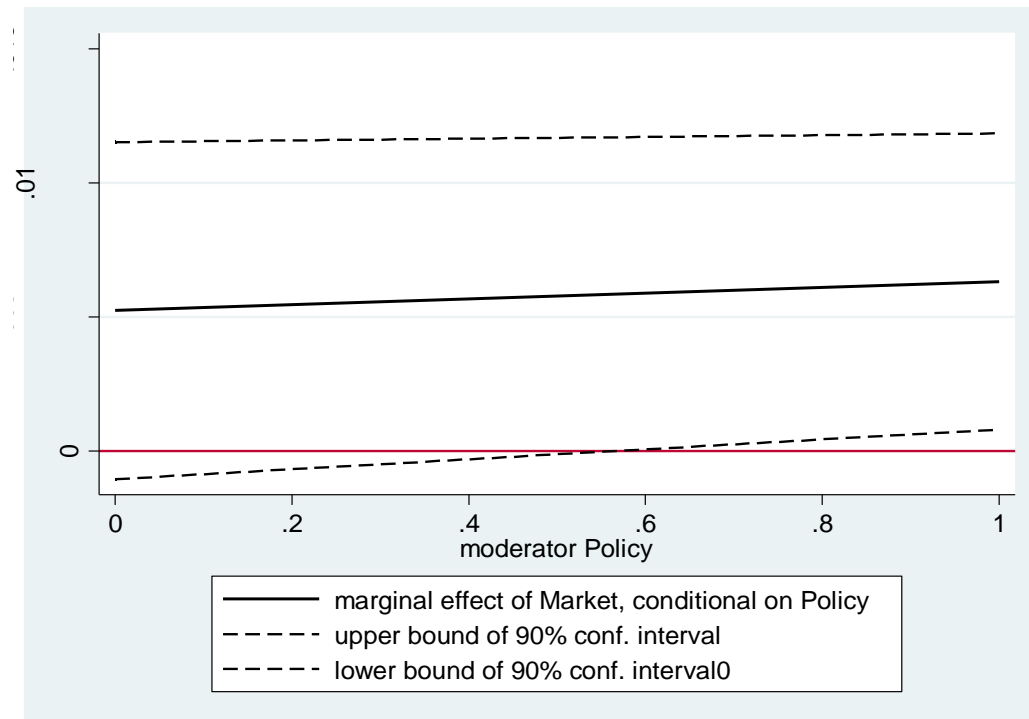


Figure 2 Moderating effect of AGE on the performance of market seeking orientation

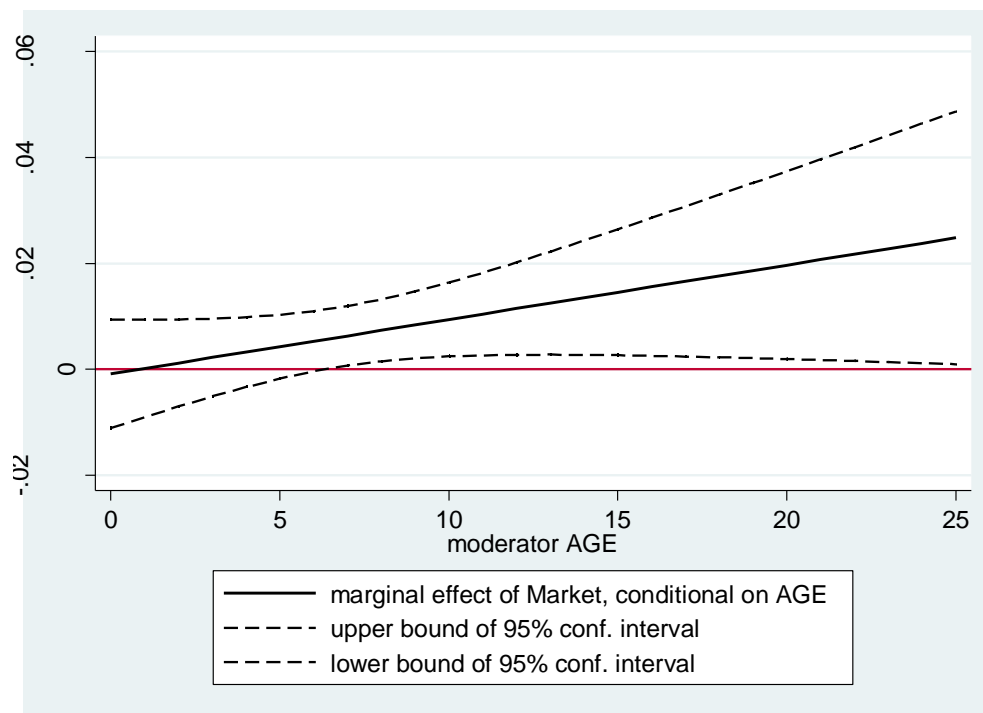


Figure 3 Moderating effect of WOS on the performance of market seeking orientation

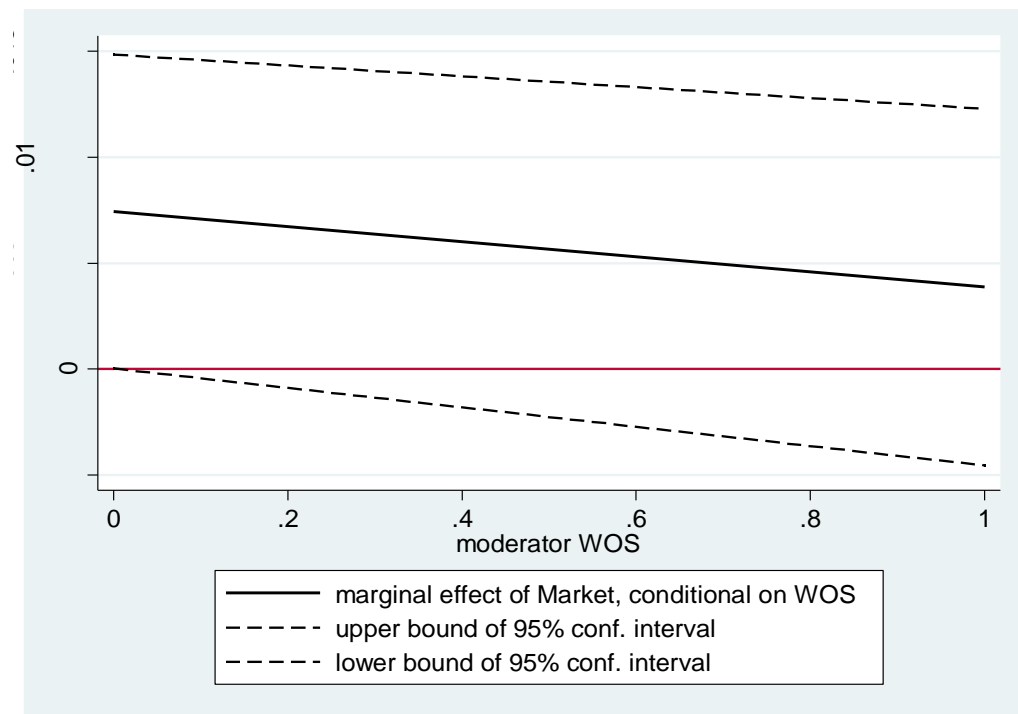


Figure 4 Moderating effect of JV on the performance of market seeking orientation

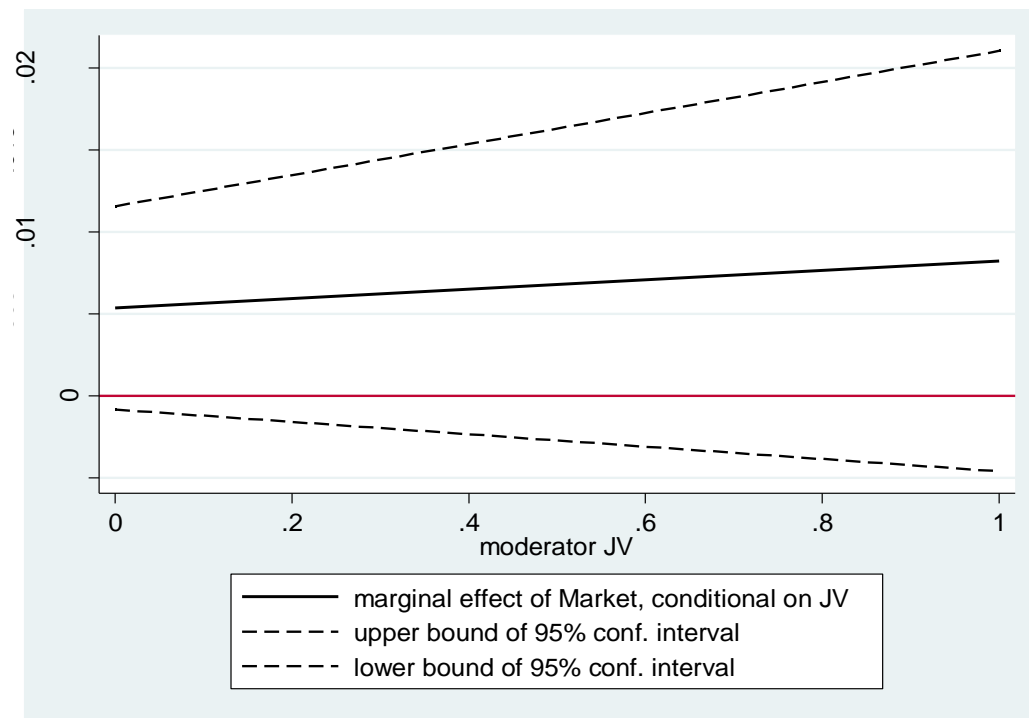


Figure 5 Moderating effect of WOS on marginal effect of two way interaction:
Market_Age

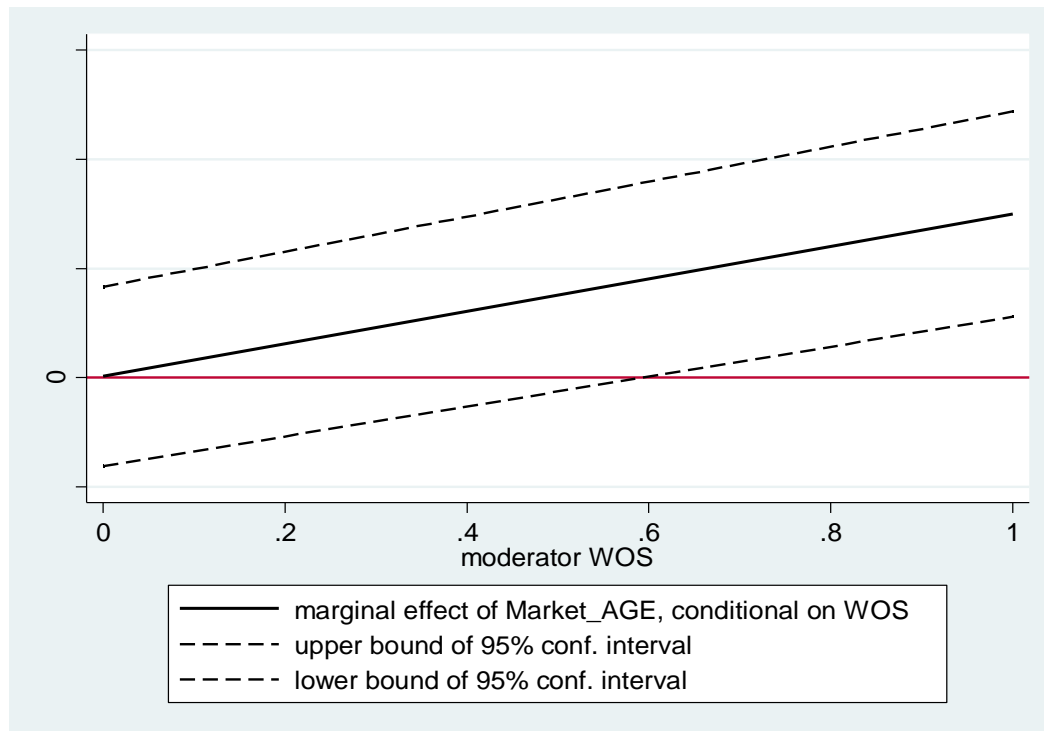


Figure 6. Moderating effect of JV on marginal effect of two way interaction: Market_AGE

